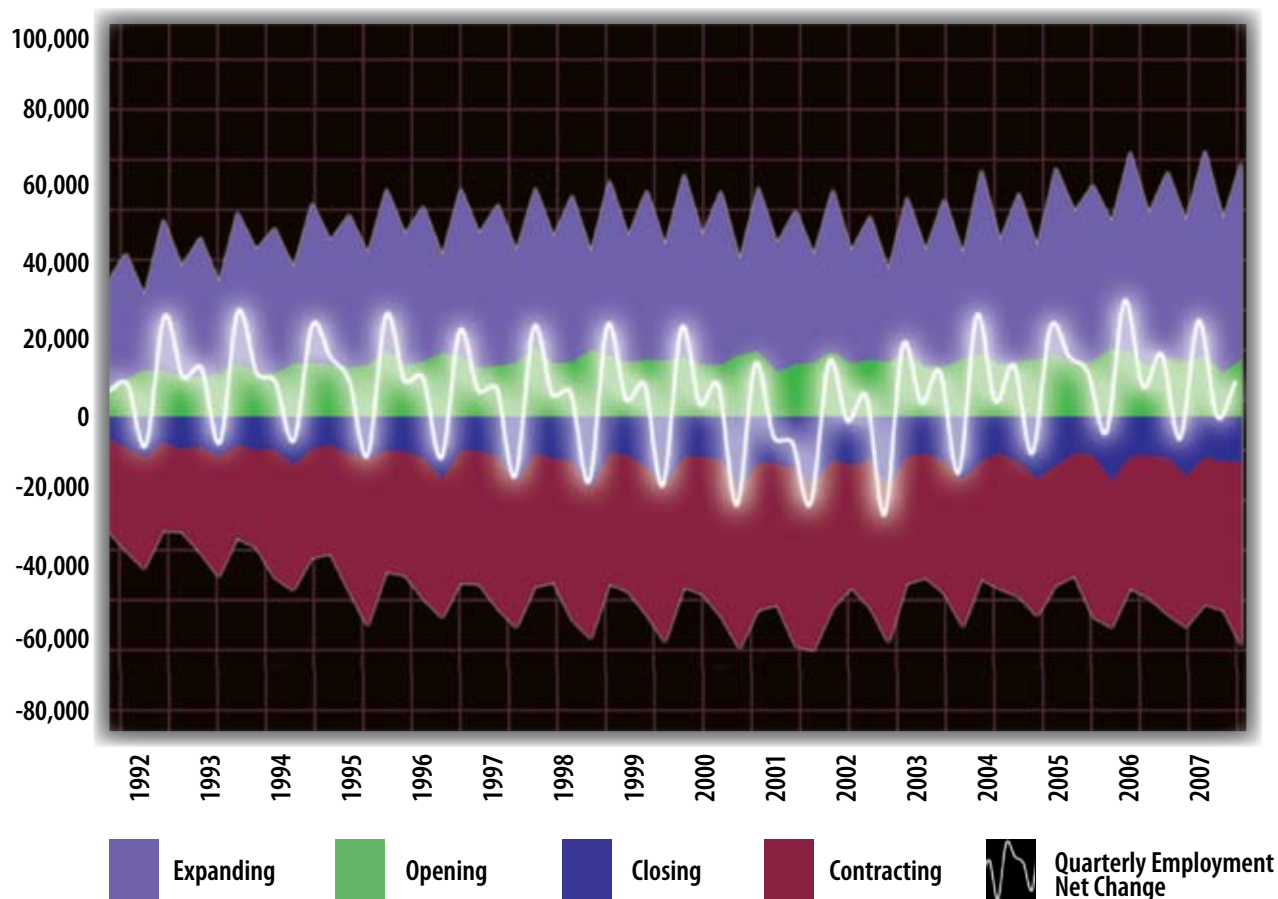


# Employment

# Dynamics 101

Volume of Job Flows 1992–2007



*Note: Elements in chart are not stacked. LED and BED data differ due to methodological differences.*

*Source: Bureau of Labor Statistics, Business Employment Dynamics (BED) data, private sector, not seasonally adjusted.*

It isn't often the case that we can actually take the pulse of the economy and get a feel for just how dynamic it actually is. Luckily, with the release of two new data sources, it is possible to get under the skin of the economy, as it were, and get a glimpse—perhaps for the first time—of some of the complexity below the surface. What the new data confirms is that the economy is indeed a dynamic animal, but it also shows that the level and speed of change occurring in the economy is nothing short of breathtaking. This realization may change how economists and policymakers view the economy and their roles in helping the workforce confront the challenges of the 21<sup>st</sup> century.

### The World as Seen from BED

Year-over, or even quarter-over job growth figures, which are the bread and butter of labor market analysis, only reveal the net change in the number of jobs in the economy in a particular period. Alas, they don't say anything about the complex web of reshuffling of jobs that is occurring each and every day. Thankfully, data from the new Business Employment Dynamics (BED) program of the Bureau of Labor Statistics is alleviating this shortcoming.

To make sense of BED data it may help to visualize it in a different light. Imagine a typical DWS employment report, which describes a quarter-to-quarter change in employment, as defining the number of new chairs being added to—or removed from—the ballroom in the Salt Palace Convention Center in Salt Lake City. (For the sake of the exercise we are going to talk about quarter-to-quarter change because that is how the BED data is structured, instead of the normal year-over change used in the DWS employment report.) So far, so good—DWS typically reports how many jobs the economy gained or lost. However, here is where things start getting interesting. As we are adding new chairs to the ballroom, imagine that at the same time thousands of groups of chairs—which represent establishments in Utah—are in the process of changing. Some groups are adding chairs, some are giving up chairs; some groups are disappearing entirely, while others are being formed anew in their wake. Those establishment changes are what the new BED data captures.

Putting numbers to that image gives some perspective to just how much churn in the number of jobs in Utah's economy. In the second quarter of 2007 in Utah there were roughly 27,325

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more jobs than the previous quarter—a respectable seasonal increase. However, in that same period there were more than 90,000 new positions created through establishments expanding or opening. On the other side of the ledger, there were roughly 63,000 positions that were lost due to establishments contracting or closing. To tie that back to our mental picture, between the first and second quarters of 2007, nearly 154,000 chairs were shuffled in Utah's economy.

How many establishments are involved in this churn? The numbers might surprise you. In the second quarter of 2007, fully 34.2 percent of private establishments in Utah saw job gains due to expansion or by opening.

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Another 24.5 percent saw contractions or closed in the same time period. That means nearly 60 percent of all private establishments in the state experienced some churn in their number of chairs—jobs—during the second quarter of 2007. That is a tremendous amount of labor market activity for a net gain of 27,325 jobs between quarters. What is even more remarkable is that a comparable amount of activity occurs when the economy loses jobs. The data clearly shows that the market is always churning at an incredible rate.

### From Chairs to People with LED

BED data reveals just how much churn occurs in establishments between quarters. As we have seen, not only does the number of jobs in the economy change from quarter to quarter, but their distribution in individual establishments is also highly dynamic from period to period. However, in a sense, so far we have only been talking about the chairs that workers occupy, not the workers themselves. In any given quarter, any given job may be filled by a number of different workers. So while BED shows us how the chairs are constantly being rearranged within the economy, we are in need of a measure of how many people sit in those chairs during a given quarter. Data from the Local Employment Dynamics (LED) program of the U.S. Census Bureau provides some insight

into this important aspect of Utah's dynamic economy.

In the second quarter of 2007, while a significant number of jobs—or chairs, if you prefer to stick with our mental image—changed, an even larger number of individuals sat in those chairs—some for the entire quarter, others for only a few days. LED data shows that during the quarter there were more than 280,000 new-hire events recorded at private establishments, with roughly 255,000 separations also being recorded. To put that in perspective, private establishments in Utah added roughly 50,000 positions for all of 2007, but to get there required more than one million new-hire events throughout the year (and a similar number of separations). That is a lot of people hopping on and off a lot of chairs—think of a Chinese fire drill on a massive scale, being played out every day of the year.

### Why does Economic Dynamism Matter?

Joseph Schumpeter, writing in 1942, called this dynamic nature of the economy, “creative destruction,” and he went on to say that it was, “the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.” With that in mind it is more important than ever to recognize and appreciate

the dynamic forces at play within our own economy. As BED and LED data show, Utah's economy experiences a relatively large amount of “creative destruction” on a quarterly basis. For the state's workers this represents an opportunity—and a challenge. While a dynamic economy creates many opportunities for individuals to explore their talents and try new things, it also can drop them—cruelly sometimes—from its rolls when it moves on. As Alan Greenspan has noted, “The problem with creative destruction is that it is destruction, and there is a very considerable amount of turmoil that goes on in the process.”

The message to take away from this review of employment dynamics data for Utah's workers, current and future, is plain: the more skilled and flexible workers are, the more able they are to meet the demands of a dynamic workplace, the more successful they will be in the future. For example, no one career path will ensure future success of the child in school today. There are just too many unknowns. But, if that child learns how to learn as well as becoming proficient in math, reading, and science, they will have the tools to surmount the challenges they will surely face in our dynamic labor market. There is no need for them to be victims of creative destruction; rather they should harness it to their advantage—and ours. 📌

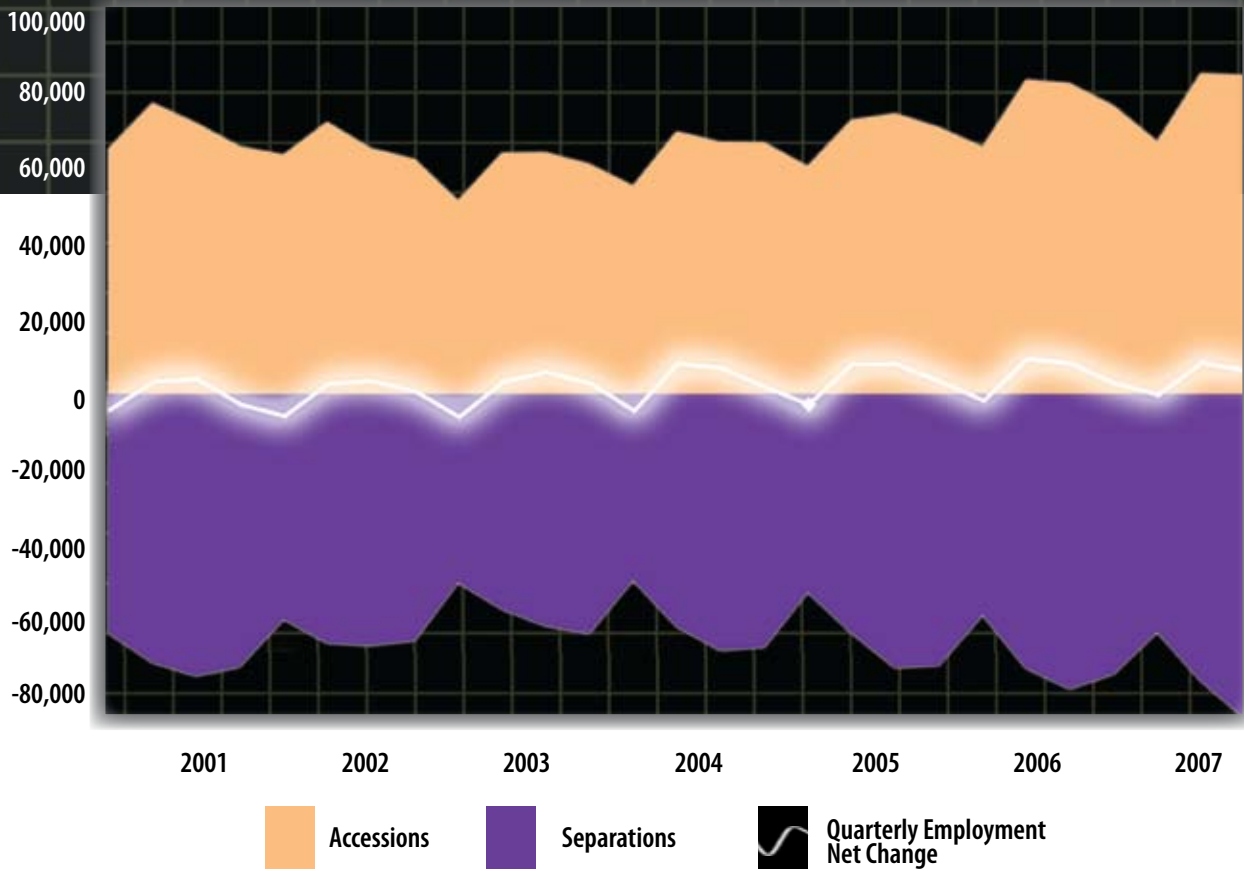


#### Resources

- Joseph A. Schumpeter. *Capitalism, Socialism and Democracy* (1942).
- Alan Greenspan. Comments given before the Senate Committee on Banking, Housing, and Urban Affairs. July 21, 2005.



## Volume of Worker Flows



*Note: Elements in chart are not stacked. LED and BED data differ due to methodological differences.  
Source: U.S. Census Bureau, Local Employment Dynamics (LED) data, private sector, not seasonally adjusted.*

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